

THOMAS EDISON CHARTER SCHOOL - SOUTH  
FINANCIAL STATEMENTS

June 30, 2006

**THOMAS EDISON CHARTER SCHOOL - SOUTH**  
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**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Thomas Edison Charter School - South  
Nibley, Utah

We have audited the accompanying statement of financial position of Thomas Edison Charter School - South (TECS - South) (a non-profit organization) as of June 30, 2006, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TECS - South as of June 30, 2006, and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2006 on our consideration of TECS - South internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit prepared in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



JONES SIMKINS, P.C.  
October 26, 2006

THOMAS EDISON CHARTER SCHOOL - SOUTH

STATEMENTS OF FINANCIAL POSITION

June 30, 2006

Assets

Current assets:

Cash and cash equivalents	\$	110,191
Grant receivable		<u>28,747</u>

Total current assets		138,938
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Fixed assets, net		<u>106,574</u>
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Total assets	\$	<u><u>245,512</u></u>
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Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	32,892
Accrued expenses		63,669
Note payable		<u>120,000</u>

Total current liabilities		216,561
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Total liabilities		<u>216,561</u>
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Net assets:

Temporarily restricted		2,772
Unrestricted		<u>26,179</u>

Total net assets		<u>28,951</u>
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Total liabilities and net assets	\$	<u><u>245,512</u></u>
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The accompanying notes are an integral  
part of these financial statements.

THOMAS EDISON CHARTER SCHOOL - SOUTH  
STATEMENTS OF ACTIVITIES  
For the Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Changes in net assets</u>			
Public Support:			
State and federal grants	\$ 1,131,890	389,122	1,521,012
Contributions	<u>701</u>	<u>-</u>	<u>701</u>
Total public support	<u>1,132,591</u>	<u>389,122</u>	<u>1,521,713</u>
Revenue and other support:			
Miscellaneous income	2,587	-	2,587
Net assets released from restrictions	<u>451,460</u>	<u>(451,460)</u>	<u>-</u>
	<u>454,047</u>	<u>(451,460)</u>	<u>2,587</u>
Total support and revenue	<u>1,586,638</u>	<u>(62,338)</u>	<u>1,524,300</u>
Expenses:			
Program services:			
School program services	<u>1,227,534</u>	<u>-</u>	<u>1,227,534</u>
Total program service expenses	1,227,534	-	1,227,534
Support services - management and general	<u>345,027</u>	<u>-</u>	<u>345,027</u>
Total expenses	<u>1,572,561</u>	<u>-</u>	<u>1,572,561</u>
Increase (decrease) in net assets	14,077	(62,338)	(48,261)
Net assets - beginning of period	<u>12,102</u>	<u>65,110</u>	<u>77,212</u>
Net assets - end of year	\$ <u><u>26,179</u></u>	<u><u>2,772</u></u>	<u><u>28,951</u></u>

(continued)

The accompanying notes are an integral  
part of these financial statements.

**THOMAS EDISON CHARTER SCHOOL - SOUTH**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2006**

	<u>2006</u>
Salaries	\$ 716,218
Rent	338,264
Benefits	275,757
Textbooks	76,098
Utilities	40,424
Inservice expense	30,558
Classroom supplies	16,364
Office	12,087
Building and maintenance	10,890
Insurance	10,084
Depreciation	8,845
Contracted services	8,528
Music supplies	5,263
Advertising	5,106
Computer supplies	4,691
Furniture	3,897
Equipment expense	2,994
Student activities	1,959
Supplemental instruction materials	1,923
Discretionary supplies	1,550
First aid supplies	594
Education consultant	196
Miscellaneous	111
Board expense	88
Art supplies	<u>72</u>
Total expenses	<u>\$ 1,572,561</u>

(continued)

The accompanying notes are an integral  
part of these financial statements.

**THOMAS EDISON CHARTER SCHOOL - SOUTH**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2006**

(continued)

	School Program Services	Management and General	Total Expenses
Salaries	\$ 549,370	166,848	716,218
Rent	280,759	57,505	338,264
Benefits	206,818	68,939	275,757
Textbooks	76,098	-	76,098
Utilities	33,552	6,872	40,424
Inservice expense	30,558	-	30,558
Classroom supplies	14,651	1,713	16,364
Office	6,507	5,580	12,087
Building and maintenance	-	10,890	10,890
Insurance	-	10,084	10,084
Depreciation	8,226	619	8,845
Contracted services	-	8,528	8,528
Music supplies	5,263	-	5,263
Advertising	-	5,106	5,106
Computer supplies	4,691	-	4,691
Furniture expense	3,897	-	3,897
Equipment expense	2,994	-	2,994
Student activities	1,959	-	1,959
Supplemental instruction materials	1,923	-	1,923
Discretionary supplies	-	1,550	1,550
First aid supplies	-	594	594
Education consultant	196	-	196
Miscellaneous	-	111	111
Board expense	-	88	88
Art supplies	72	-	72
	<hr/>	<hr/>	<hr/>
Total expenses	\$ <u>1,227,534</u>	<u>345,027</u>	<u>1,572,561</u>

The accompanying notes are an integral  
part of these financial statements.



THOMAS EDISON CHARTER SCHOOL - SOUTH  
STATEMENTS OF CASH FLOWS  
For the Year Ended June 30, 2006

	<u>2006</u>
<u>Cash flows from operating activities:</u>	
Change in net assets	\$ (48,261)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,845
(Increase) decrease in:	
Grants receivable	(28,747)
Increase (decrease) in:	
Accounts payable	18,471
Accrued expenses	<u>63,669</u>
Net cash provided by operating activities	<u>13,977</u>
<u>Cash flows from investing activities:</u>	
Purchases of fixed assets	<u>(115,419)</u>
Net cash used in investing activities	<u>(115,419)</u>
<u>Cash flows from financing activities:</u>	
Proceeds from note payable	<u>120,000</u>
Net cash provided by financing activities	<u>120,000</u>
Net increase in cash	18,558
Cash and cash equivalents, beginning of year	<u>91,633</u>
Cash and cash equivalents, end of year	\$ <u><u>110,191</u></u>
<u>Supplemental disclosure:</u>	
Cash paid for interest	\$ <u><u>-</u></u>

The accompanying notes are an integral  
part of these financial statements.

THOMAS EDISON CHARTER SCHOOL - SOUTH  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization

The Thomas Edison Charter School - South, (TECS- South) is a non-profit corporation, exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Further, it has been classified as an organization that is not a private foundation under Section 509(a)(2) of the Internal Revenue Code.

The TECS- South operates one charter school in Nibley, Utah for children from kindergarten to seventh grade. School program services began in September 2005.

Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include time deposits with an original maturity of less than three months and overnight repurchase agreements.

Fixed Assets

Leasehold improvements, furniture and equipment are stated at cost or, if acquired by gift, at the estimated fair market value at the date of gift. Assets are capitalized and depreciation is provided over the estimated useful lives of assets valued over \$1,000 using the straight-line method. The estimated useful lives are as follows:

Furniture and equipment	3 - 10 years
Leasehold improvements	20 years

Upon disposition of an asset, its cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized.

Donated Materials and Services

Donated materials and equipment are recorded as support at their estimated values. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated. During fiscal year 2006 TECS- South received approximately 9,100 hours of donated services with an estimated value of approximately \$63,700. No amounts have been reflected in the financial statements for donated services.

**THOMAS EDISON CHARTER SCHOOL - SOUTH**  
**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 2006**

**Note 1 - Nature of Activities and Significant Accounting Policies (continued)**

**Concentration of Credit Risk**

TECS - South maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. TECS - South has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

The principal source of operating funds for TECS - South is derived from federal and state funds. TECS - South receives state funding based on the number of students enrolled in the School. TECS - South also receives a federal charter school grant, paid through the State of Utah, which is restricted by the terms of the grant.

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

**Revenue Recognition**

Support that is restricted by contract or donor provisions is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Financial Statement Presentation**

TECS - South financial statements are presented in accordance with accounting principles generally accepted in the United States of America, and in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, TECS - South is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, TECS - South is required to present a statement of cash flows.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

THOMAS EDISON CHARTER SCHOOL - SOUTH  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2006

Note 2 - Operating Lease

TECS – South has entered into a noncancellable operating lease for building space which started September 1, 2005 with an expiration date of 20 years after the commencement date. The lease requires monthly payments of \$.72 per square foot plus 1% of costs that include land acquisition, and on-site and off-site improvements, including applicable city or municipal taxes or fees. The lease contains escalation clauses preventing the percentage of future rent increases from exceeding the percentage increases in the Local Property Tax Replacement Funding per student. TECS - South is responsible for all utilities, property taxes and insurance. In addition, TECS - South has the option to purchase the property after two years of occupancy and before the expiration of thirty months after occupation, for the purchase price of approximately \$5,000,000. The lease also requires a reserve and replacement account to be established by TECS - South 24 months after the start of the lease. To satisfy the reserve, TECS - South is required to deposit monthly into a separate account an amount equal to 1% of its monthly base rental to be spent solely for the semi-annual upkeep of the property. The reserve adjusts to 2% in the 48<sup>th</sup> month of the lease.

TECS - South's minimum payments under this agreement for the next five years are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 400,573
2008	400,573
2009	426,240
2010	431,373
2011	<u>431,373</u>
Total	\$ <u>2,090,132</u>

Note 3 – Fixed Assets

At June 30, 2006, fixed assets consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Furniture and equipment	\$ <u>115,419</u>	<u>(8,845)</u>	<u>106,574</u>
Totals	\$ <u>115,419</u>	<u>(8,845)</u>	<u>106,574</u>

THOMAS EDISON CHARTER SCHOOL - SOUTH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

Note 4 – Note Payable

During fiscal year 2006 Thomas Edison Charter School (TECS) loaned \$120,000 to TECS-South. While no written agreement exists, both TECS and TECS-South have verbally agreed that the loan will be repaid on the same terms as the note payable between TECS and Charter School Properties II, LLC (9% interest, monthly payments of \$12,018.58). In accordance with this agreement, repayment began subsequent to year end.

Note 5 – Defined Contribution Retirement Plan

TECS – South has a defined contribution retirement plan that covers all full-time employees. TECS – South makes elective contributions at the discretion of the Board of Directors. For the year ended June 30, 2006 TECS – South contributed 9% of eligible wages, resulting in a contribution of \$58,112.

THOMAS EDISON CHARTER SCHOOL - SOUTH  
GOVERNMENT AUDITING STANDARDS REPORT

June 30, 2006



**JONES  
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

To the Board of Directors  
Thomas Edison Charter School - South  
Nibley, Utah

We have audited the basic financial statements of the Thomas Edison Charter School - South (TECS - South) as of June 30, 2006, and have issued our report thereon dated October 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered TECS - South's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted certain immaterial matters related to internal control that we have communicated to management in a separate letter dated October 26, 2006.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether TECS - South's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

This report is intended for the information of the board of directors, management and state agencies and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.  
October 26, 2006



THOMAS EDISON CHARTER SCHOOL- SOUTH

STATE COMPLIANCE REPORT

June 30, 2006



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH STATE LEGAL COMPLIANCE REQUIREMENTS**

To the Board of Directors

Thomas Edison Charter School - South  
Nibley, UT

We have audited the financial statements of Thomas Edison Charter School - South as of June 30, 2006, and have issued our report thereon dated October 26, 2006. As part of our audit, we have audited TECS - South compliance with the requirements governing types of services allowed or not allowed; eligibility; matching; level of effort or earmarking; reporting; and special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. TECS - South received the following major state assistance programs from the State of Utah:

**Minimum School Program Funding ( Utah State Office of Education)**

The management of TECS - South is responsible for its compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the TECS - South's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, TECS - South complied, in all material respects, with the requirements governing types of services allowed or not allowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the period ended June 30, 2006.

*Jones Simkins, P.C.*

JONES SIMKINS, P.C.

October 26, 2006



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To the Board of Directors  
Thomas Edison Charter School - South  
Nibley, Utah

We have audited the financial statements of Thomas Edison Charter School - South (TECS - South) for the year ended June 30, 2006 and have issued our report thereon dated October 26, 2006.

**Communications Required Under Professional Standards**

Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards.**

As stated in our engagement letter dated May 18, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of TECS - South. Such considerations were solely for the purpose of determining our audit procedures and to report on the internal control in accordance with government auditing standards and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of TECS - South's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Significant Accounting Policies and Audit Adjustments

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We recommended adjustments to fixed assets, accounts payable, accrued expenses and depreciation expense.

### **Internal Control**

In planning and performing our audit of the financial statements of TECS - South for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

Our audit did disclose the following other matters that should be evaluated.

### Current Year Recommendations

1. Due to the limited staff, segregation of duties was not possible during fiscal year 2006. However, the oversight by the Board of Directors was a key control to ensure that financial activity was properly recorded and reported. We recommend that the Board continue to actively monitor financial reports and activities to ensure that transactions are properly authorized and reported.

2. The current accounting and auditing environment is prone to issuing new regulations and rules. During 2006, the Auditing Standards Board issued 10 new auditing standards. Two of the standards will be effective for next fiscal year (fiscal year ending June 30, 2007) and the other standards are effective the following fiscal year. Some of these new standards require the auditor to consider management's analysis of risks and implementation of controls to address those risks. We recommend that management evaluate the effect of these standards on their policies and procedures in order to be prepared for future financial statement audits.
3. As noted in the previous point, accounting rules are becoming more complex. In addition, the school is expected to grow substantially in future years, resulting in more complex accounting transactions. We have noted that these types of changes often strain the administrative resources of a business. Therefore, we recommend that the Board continue to evaluate the adequacy of resources allocated to the accounting and financial reporting functions.

A follow up by the Board to the recommendations in this letter should be made during fiscal year 2007. We will reassess the status of these comments during our next audit engagement. We have appreciated the cooperation from TECS – South's personnel during our audit. Their assistance has been most beneficial in the completion of our audit report. If questions arise concerning the above recommendations or our audit report, please contact us and we will discuss any questions with you.

This report is intended solely for the use of the Board of Directors, management and other regulatory bodies and should not be used for any other purposes.



JONES SIMKINS, P.C.  
October 26, 2006